

REPORT OF EXAMINATION
NORTHERN LIFE INSURANCE COMPANY

Seattle, Washington

December 31, 1996



States Participating:

Washington

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify that the attached Report of Examination shows the financial condition and affairs of **NORTHERN LIFE INSURANCE COMPANY** of Seattle, Washington, as of December 31, 1996.

PATRICK H. MCNAUGHTON
Chief Examiner

Date

NORTHERN LIFE INSURANCE COMPANY

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NORTHERN LIFE INSURANCE COMPANY

Seattle, Washington
July 17, 2000

Hon. George Nichols III
Commissioner, Kentucky Department of Insurance
Chair, NAIC Financial Condition (EX) Committee
PO Box 517
Frankfort, KY 40602-0517

Hon. Jose Montemayor
Commissioner, Texas Department of Insurance
NAIC Secretary, Western Zone
PO Box 149104
Austin, TX 78714-9104

Hon. Deborah Senn
Insurance Commissioner
State of Washington
PO Box 40255
Olympia, WA 98504-0255

Dear Commissioners:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.03, Revised Code of Washington (RCW), an examination was made of the corporate affairs and financial records of

NORTHERN LIFE INSURANCE COMPANY

of

Seattle, Washington

hereinafter referred to as the "Company", at its home office located at 1110 Third Avenue, Seattle, Washington 98101.

The Report of Examination is respectfully submitted showing the condition of the Company as of December 31, 1996.

SCOPE OF EXAMINATION

Per RCW 48.03.010, the examination covered the five-year period from January 1, 1992 through December 31, 1996. The Company was last examined as of December 31, 1991 by examiners representing Washington, Delaware, Georgia, and Nevada. No NAIC Zone examiners participated in the current examination.

The examination followed the statutory requirements contained in the Washington Insurance laws and the guidelines prescribed in the NAIC Financial Condition Examiner's Handbook. The Company's operating procedures and financial records were reviewed as considered necessary to ascertain the financial condition of the Company and conformity with related laws. These matters are discussed in various sections of the report. The examination also included identification and disposition of material transactions and events occurring subsequent to December 31, 1996.

NORTHERN LIFE INSURANCE COMPANY

INSTRUCTIONS

1. The examination noted that one bond was still registered in the name of ReliaStar Life Insurance Company rather than the Company. This is not in compliance with RCW 48.12.010, which states, “ In any determination of the financial condition of any insurer there shall be allowed as assets only such assets as belong wholly and exclusively to the insurer, which are registered, recorded, or held under the insurer’s name.” The Company is instructed to comply with the above statute.
2. It was noted that some residential loans serviced by ReliaStar Investment Research, Inc., were not properly assigned or recorded in the name of Northern Life Insurance Company as required by RCW 48.12.010. The Company is instructed to comply with the above statute.
3. The Company does not maintain adequate records of its obligations and transactions and does not produce and make records in its possession freely accessible to the examiners, which is not in compliance with RCW 48.03.030. Some records provided on microfiche were illegible and unreadable. The Company is instructed to comply with the above statute.
4. The Statement of Actuarial Opinion contains a disclaimer in the final paragraph, which states that the opinion cannot be relied on without the advice of a qualified actuary. This disclaimer is unwarranted, and the final paragraph should be withdrawn in compliance with RCW 48.74.025. The Company is instructed to comply with the above statute.
5. It was noted that the Company failed to include certain entries in its schedules and exhibits or parts of its annual statement including the Analysis of Increase in Reserves, which is not in compliance with RCW 48.05.250. The Company is instructed to comply with the above statute.
6. It was noted that there are universal life policies in force for which the valuation interest rate of 5.5% is inappropriate in light of guaranteed cash values being based on an interest rate of 4.5%. There are also policies for which the valuation method has taken excess value, ultimately intended for the policyholder, and accumulated it at 4.5% to age 95, then used the present value at 5.5% to calculate the reserve. This is not in compliance with RCW 48.74.050(1) and 48.74.060. The Company is instructed to comply with RCW 48.74.050(1) and 48.74.060.

NORTHERN LIFE INSURANCE COMPANY

COMMENTS AND RECOMMENDATIONS

The examination developed the following comments and recommendations calculated to prevent non-compliance in the future:

1. In our review of Remittances and Items not Allocated, many suspense items were outstanding for an extended period of time. It is recommended that the Company institute procedures to control the timely clearance of suspense items and also to provide detailed documentation for the items included in the balance of all suspense accounts.
2. In our review of the Separate Accounts common stock, several mutual funds were not listed by the NAIC Securities Valuation Office. It is recommended that the Company file SAR with the SVO for all mutual funds that were not listed in the SVO.
3. In our review of Conflict of Interest Statements, it was noted that several Vice Presidents and Directors did not complete a conflict of interest statement prior to year end. It is recommended that all officers, directors, and those individuals with fiduciary responsibilities complete the Corporate Conflict of Interest Statement.

HISTORY

The Company was incorporated July 14, 1906, under the laws of the state of Washington. Northern Life Insurance Company is a wholly-owned subsidiary of Northwestern National Life Insurance Company, which in turn is a wholly-owned subsidiary of ReliaStar Financial Corporation. ReliaStar was incorporated as a holding company in the state of Delaware in conjunction with the demutualization of Northwestern National Life Insurance Company, its principal insurance subsidiary, in January 1989. During 1995, the ultimate parent changed its name from NWNL Companies, Inc., to ReliaStar Financial Corporation. During 1996, the immediate parent changed its name from Northwestern National Life Insurance Company to ReliaStar Life Insurance Company.

Nationwide Corporation, an Ohio holding company, acquired 91.2% of the outstanding stock of Northern Life during the period 1963 through 1972. Equity Funding Corporation of America, a California holding company, acquired Nationwide's interest on June 29, 1972, and subsequently acquired and retired the remaining 8.8% of the outstanding shares of stock.

Equity Funding Corporation of America in April 1973, petitioned for reorganization under Chapter 10 of the Bankruptcy Act.

Orion Capital Corporation, a Delaware corporation, acquired 100% of the outstanding Northern Life stock in 1976. Orion Capital Corporation is the reorganized successor to Equity Funding Corporation of America.

ReliaStar Financial Corporation, at the time a Minnesota stock and mutual life insurance company, named Northwestern National Life Insurance Company, acquired all of the outstanding stock of Northern Life in December 1976, through its subsidiary, Northern Life Insurance Company of America. Northern Life was liquidated and merged into Northern Life Insurance Company of America on February 1, 1978, and on the same date, the Company name was changed to Northern Life Insurance Company.

In January 1989, the Commissioner of Commerce of Minnesota approved a plan of conversion and reorganization, which provided, among other things, for the following:

1. The conversion of Northwestern National Life Insurance Company (the parent) from a combined stock and mutual company to a stock life insurance company.
2. A reorganization under which the parent became a wholly owned subsidiary of the NWNL Companies, Inc., a holding and management company domiciled in Delaware.

NORTHERN LIFE INSURANCE COMPANY

CAPITALIZATION

The development of the capital contributions by the parent to paid-in surplus since the last examination is summarized as follows:

<u>Year</u>	<u>Amount</u>
1992	\$15,000,000
1993	30,000,000
1994	10,000,000
1995	-0-
1996	-0-

MANAGEMENT

Stockholders

The Company is 100% owned and operated by ReliaStar Life Insurance Company, a Minnesota domiciled insurance company. The January 1989 conversion and reorganization discussed in the History section above, along with the subsequent name changes, did not significantly alter the Company's management and control structures or relationships.

Board of Directors

The Bylaws of the Company provide that each director shall be elected at the annual meeting of the stockholders. Vacancies on the Board may be filled by a majority vote of the remaining Board members.

The following directors, officers and committee members are serving the Company as of December 31, 1996:

<u>Directors</u>	<u>Principal Business Affiliation</u>	<u>Residence</u>
J.G. Turner	Chairman and Chief Executive Officer, ReliaStar	Minneapolis, MN
M. J. Dubes	President and Chief Executive Officer, Northern Life	Seattle, WA
J. H. Flittie	President and Chief Operating Officer, ReliaStar	Minneapolis, MN
R. R. Crowl	Senior Vice President and General Counsel, ReliaStar	Minneapolis, MN
W. R. Huneke	Senior Vice President and Chief Financial Officer, ReliaStar	Minneapolis, MN
K. U. Kuk	Senior Vice President, ReliaStar	Minneapolis, MN
R. C. Salipante	Senior Vice President, Personal Financial Services, ReliaStar	Minneapolis, MN
S. W. Wishart	Senior Vice President and Chief Investment Officer, ReliaStar	Minneapolis, MN

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Officers

<u>Name</u>	<u>Title</u>
J. G. Turner	Chairman of the Board
M. J. Dubes	President and Chief Executive Officer
J. R. Miller	Executive Vice President and Chief Operating Officer
R. R. Crowl	Senior Vice President and General Counsel
G. A. Bernard	Vice President and Chief Actuary
D. R. Kaufman	Vice President, Treasurer and Chief Financial Officer
S. M. Bergen	Secretary
P.R. Beeghly	Vice President
E. R. Bennett	Vice President
R. Contreras	Vice President
B. J. Corbin	Vice President
J. A. Mills	Vice President
E. M. Onderdonk	Vice President

Executive Committee

J. G. Turner
M. J. Dubes
J. H. Flittie
R. R. Crowl

Investment Committee

J. G. Turner	S. W. Wishart
J. H. Flittie	J. A. Johnson
R. R. Crowl	S. H. Delong
W. R. Huneke	J. R. Miller
K. U. Kuk	G. M. Anderson

Conflict of Interest

The Company has an established conflict of interest procedure for its directors, officers, and key employees. It was noted that several Vice Presidents and Directors did not complete a conflict of interest statement prior to year end. It is recommended that all officers, directors, and those individuals with fiduciary responsibilities complete the Corporate Conflict of Interest Statement.

The following organizational chart is taken from the Company's filed 1996 annual statement:

NORTHERN LIFE INSURANCE COMPANY

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AFFILIATED COMPANIES

The Company is a wholly-owned subsidiary of ReliaStar Life Insurance Company. ReliaStar Financial Corporation owns all of the voting stock of ReliaStar Life Insurance Company. As a member of an Insurance Holding Company System, registration statements are required to be filed in accordance with RCW 48.31B.025 and WAC 284-18-300. ReliaStar Financial Corporation filed the registration statements for each year under examination on behalf of ReliaStar Life Insurance Company.

Contracts/Service Agreements

The Company's income tax returns have been consolidated with ReliaStar Financial Corporation and its subsidiaries shown in Schedule Y of the annual statement. The method by which the total consolidated federal income tax for each entity is allocated to each of these companies is subject to a written agreement approved by the Company's board of directors. Allocation is based on separate return calculations such that each company in the consolidated return pays the same tax or receives the same refunds it would have paid or received had it consistently filed separate federal income tax returns. Intercompany tax balances are settled within a reasonable amount of time after filing of the consolidated federal income tax returns with the Internal Revenue Service.

Minutes

The minutes of the meetings of the Shareholders, Board of Directors, and committees of the Board for the period covered under examination were reviewed. The Board adequately approved investment transactions. The meetings were well attended.

INTERNAL SECURITY

Fidelity Bonds

The Company maintains a Fidelity Bond through National Union Fire Insurance Company. The policy provides a limit of \$50,000,000 with a single loss deductible of \$500,000. The coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC Examiners Handbook.

Other Insurance

The Company also maintains various insurance policies against property and liability loss. Coverage includes commercial general liability, directors and officers liability, and other hazards to which the Company is exposed. The Company appeared to be adequately protected.

Internal Controls

The firm of Deloitte & Touche, Certified Public Accountants, Minneapolis, Minnesota, was retained by the Company to audit its statutory financial statements for the years under examination. As part of these audits, reports of internal control structure were issued with no material weaknesses noted.

In addition, the examiners independently tested internal controls and no material weaknesses were found. Internal controls tested appeared to be effective.

Internal Audit Function

The Internal Audit Department of the parent company, ReliaStar Life Insurance Company, performs audits of the Company and provides recommendations to management on internal controls and operational procedures.

Physical Security Systems

NORTHERN LIFE INSURANCE COMPANY

ReliaStar Financial Corporation manages the Company's invested assets under an investment service agreement with two custodians: First Trust which maintains 69.5% and the remainder with ReliaStar Investment Research, Inc. (RiRi). RiRi is an affiliate of the Company. Examination of the agreements indicates that proper safeguards are in place to secure the Company's assets.

OFFICERS AND EMPLOYEES WELFARE AND PENSION PLANS

The Company, as a member of ReliaStar Financial Corporation, provides its employees and their dependents with medical, dental, vision care, and life and AD&D benefits. The Company's employees are eligible to participate in the parent company's pension plan; a long term disability plan and a profit sharing savings plan. The Company made adequate provisions in the financial statements for its obligations under these plans.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact business in all of the United States and the District of Columbia, except New York, as of December 31, 1996.

The Company markets its products through general agents under the direction of the Vice President of Sales, subject to the general supervision of the President and Board of Directors. Currently, the Company marketing effort is focused on the sale of periodic payment and single premium fixed and variable annuity contracts, both qualified and non-qualified.

GROWTH OF COMPANY

The growth of the Company is reflected in the following schedules:

Schedule 1

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
1996*	5,245,728,949	4,969,813,919	274,415,030
1995	4,708,431,452	4,457,520,630	250,910,822
1994	4,128,862,498	3,902,250,307	226,612,191
1993	3,586,819,710	3,395,452,007	191,367,703
1992	3,017,854,799	2,877,629,192	140,225,606

Schedule 2

<u>Year</u>	<u>Net Premium Written</u>	<u>Net Investment Income</u>	<u>Net Income</u>
1996*	74,224,499	382,086,119	35,443,145
1995	58,713,680	338,534,206	37,243,039
1994	62,234,827	293,593,762	30,603,725
1993	61,079,013	274,519,694	25,272,542
1992	60,562,112	238,694,856	18,987,620

*As adjusted by examination.

REINSURANCE

NORTHERN LIFE INSURANCE COMPANY

Since the Company has discontinued the solicitation and issuance of new life insurance business, there are no new life insurance policies currently being reinsured, and no reinsurance agreements have been entered into for several years. The Company has automatic and facultative reinsurance coverage for the excess over its retention on the block of life insurance business, sold in previous years, that it continues to administer. The Company's most recent retention limits, when new business was being written, were \$250,000 or \$135,000 per risk depending on the product. With one exception, reinsurance treaties are with companies authorized to do business in the state of Washington. In order to allow reserve credit on the reinsurance for the one exception, the required reserve funds are held in trust in a bank that is a member of the federal reserve system as required by RCW 48.12.160 (c)(i).

ACCOUNTING RECORDS AND PROCEDURES

Accounting Records

The Company uses purchased software (ABC), which is a fully automated accounting and financial reporting system. This system, which the Company shares with other affiliates in the ReliaStar Group, produces financial statements and other reports such as budget and cost accounting reports. In addition, various control reports such as the general ledger, trial balance, and transaction registers are produced.

Input is made directly into ABC through cash receipts, cash disbursements and manually prepared entries. In addition, input is processed through various other automated systems that are interfaced with the ABC system. These systems include:

- | | |
|---------------------------------------|------------------|
| 1. Policy Administration System | Life/70, Vantage |
| 2. Cash Disbursement Systems | CDS, MSA |
| 3. Commission Systems | AIX, DSS |
| 4. Investment Systems | PAM |
| 5. Corporate Payroll and Cost Systems | |

ABC produces the financial pages and exhibits of the NAIC annual statement using report programs that are provided by the vendor, with modifications by the Company and ReliaStar programmers where appropriate.

The Company's accounting procedures, internal controls and transaction cycles were reviewed during the planning phase of the examination and a trial balance prepared for the year ended December 31, 1996.

Actuarial Opinion

During the OIC actuarial review of Northern Life's reserves, it was determined that the Company is in non-compliance with Title 48 RCW. The issues of non-compliance regarding recordkeeping, accessibility, and financial reporting are outlined in the "Comments on Financial Statements" section of this report.

NORTHERN LIFE INSURANCE COMPANY

SUBSEQUENT EVENTS

There are no significant financial events, beyond the activities in the normal course of business experienced by the Company after December 31, 1996. However, there were several changes in senior management responsibilities at the Company subsequent to December 31, 1996. These changes are as follows:

1. James R. Miller, formerly Executive Vice President and Chief Operating Officer at the Company was named Senior Vice President and Chief Financial Officer at ReliaStar Financial Corporation. No replacement has been made to fill Mr. Miller's position at Northern Life.
2. Douglas R. Kaufman, formerly Vice President, CFO and Treasurer at Northern Life was named to fill the position of Chief Information Officer at the Company. Ms. Jeryl Millner, formerly an Assistant Vice President and Division Controller at ReliaStar Financial Corporation, was named to replace Mr. Kaufman as Vice President, CFO and Treasurer at Northern Life.
3. Garth Bernard, formerly Vice President and Chief Actuary at Northern Life, left the Company in 1997. Novian Junus was promoted from his former position as Second Vice President in the actuarial department to become Vice President and Chief Actuary.

COMMENTS ON RECOMMENDATIONS FROM PREVIOUS EXAMINATION

The comments and recommendations made in the last examination were addressed to the satisfaction of the examiners.

FINANCIAL STATEMENTS

The following statements present the financial condition of the Company as of December 31, 1996 as determined by this examination:



balancesheet.xls



sumofoperations.xls



compbalancesheet.xls

NORTHERN LIFE INSURANCE COMPANY



compsumofoperation
s.xls

NORTHERN LIFE INSURANCE COMPANY



reconciliation.xls

NORTHERN LIFE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) Bonds

Bonds, not backed by other loans, are valued at lower of amortized cost or investment value based on the NAIC Valuation of Securities. Discount or premium on bonds is amortized using the effective interest method. For loan-backed bonds, anticipated prepayments at the date of purchase are considered when determining the amortization of discount or premium. It was noted that one bond was still registered in the name of ReliaStar Life Insurance Company rather than Northern Life. This is not in compliance with RCW 48.12.010.

(2) Mortgage Loans on Real Estate - Residential

It was noted that some residential mortgage loans serviced by ReliaStar Investment Research, Inc., were not properly assigned or recorded in the name of Northern Life as required by RCW 48.12.010.

(3) Federal Income Tax Allocation

The Company's operations are consolidated with ReliaStar Life Insurance Company, and its subsidiaries, which are also included in a consolidated federal income tax return with ReliaStar Financial Corporation and all its subsidiaries. The method of allocation of taxes is subject to a written agreement with ReliaStar Financial Corporation. The allocation of taxes is based upon separate return calculations resulting in a tax charge or refund of not more than the amount each company would have paid or received if it had filed on a separate return basis. If, on the basis of separate return calculations, a subsidiary would be entitled to refunds of federal income taxes, ReliaStar will pay to the subsidiary an amount equal to the refunds due from the Internal Revenue Service.

COMMENTS ON FINANCIAL STATEMENTS

A. Bonds

\$3,979,814,481

The Company's investment in bonds represents 76% of its total admitted assets as of December 31, 1996. The bond portfolio consisted of the following:

<u>Classification</u>	<u>Statement Value</u>	<u>Par Value</u>	<u>Market Value</u>
U.S. Government	\$4,422,080	\$4,347,149	\$4,446,858
Industrial, Political & Misc.	<u>3,975,392,401</u>	<u>3,969,710,089</u>	<u>4,000,591,507</u>
Total	<u>\$3,979,814,481</u>	<u>\$3,974,057,238</u>	<u>\$4,005,038,365</u>

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B. Life Insurance Premiums Deferred and Uncollected Cost of Collection

\$3,908,368
\$0

The Company's life insurance premiums deferred and uncollected on in force business, on the basis of gross premiums less loading was overstated. RCW 48.12.010(4) requires the Company to hold the full annual mean tabular reserve. Net premiums are those that generate the mean reserve held. On Page 2, Line 15 an adjustment of \$2,539,320 which is comprised of \$1,896,918 for group life, \$126,160 for "Calc Code 1", plus \$516,242 for deferred ordinary life negative loading is included in the financial statement in this report. The cost of collection would no longer exceed total loading, therefore, an adjustment of (\$449,725) is required on Page 3, Line 15. (See Instruction #2, Page 2)

C. From Separate Accounts

\$37,863,651

In the review of the Separate Accounts common stock, it was noted that several mutual funds were not listed in the NAIC Securities Valuation Office. (See Comment #2, Page 3)

D. Aggregate Reserve for Life Policies & Contracts

\$4,810,930,544

During the OIC actuarial review of the Northern Life's reserves, it was determined that the Company is in non-compliance with the RCW in several areas. The issues of non-compliance regarding recordkeeping and accessibility and financial reporting are outlined below.

The Company does not maintain adequate records of its obligations and transactions and does not produce and make records in its possession freely accessible to the examiners, which is not in compliance with RCW 48.03.030. For example, some records provided on microfiche were illegible and unreadable. (See Instruction #3, Page 2)

The Statement of Actuarial Opinion contains a disclaimer in the final paragraph, which states that the opinion cannot be relied on without the advice of a qualified actuary. The disclaimer is unwarranted, and the final paragraph should be withdrawn in compliance with RCW 48.74.025. (See Instruction #4, Page 2)

The Company failed to include certain entries in its schedules and exhibits or parts of its annual statement. These are the Analysis of Increase in Reserves, the accident and health business, and the participating business, Exhibits 1, 8, 9, and 11 and Schedule M (interrogatories and actuarial opinion), which is not in compliance with RCW 48.05.250. For example, Schedule M was missing, and some required entries in the exhibits were also missing. (See Instruction #5, Page 2)

The aggregate reserve for life policies and contracts has not been satisfactorily confirmed because of failure of the Company to provide adequate documentation to support the reserve balances. However, the following deficiencies were noted in documentation that was provided. There are universal life policies in force for which the valuation interest rate of 5.5% is inappropriate in light of guaranteed cash values being based on an interest rate of 4.5%. There are policies for which the valuation method has taken excess value, ultimately intended for the policyholder, and accumulated it at 4.5% to age 95, then used the present value at 5.5% to calculate the reserve. This is not in compliance with RCW 48.74.050(1) and 48.74.060. An adjustment of \$5,208,857 is included in the financial statement in this report. (See Instruction #6, Page 2)

E. Remittances and Items Not Allocated

\$2,690,750

The review of Remittances and Items Not Allocated showed that many suspense items were outstanding for an extended period of time. (See Comment #1, Page 3)

NORTHERN LIFE INSURANCE COMPANY

ACKNOWLEDGMENT

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition, Timoteo L. Navaja, CFE, CIE, Examiner in Charge, Alicia M. Hooper, Kevin J. Thomas, and Roy C. Olson, FSA, MAAA, Ph.D., Actuary, all from the Washington State Office of the Insurance Commissioner, participated in the examination and preparation of this report.

NORTHERN LIFE INSURANCE COMPANY

AFFIDAVIT

[illegible]

TIMOTEO L. NAVAJA, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Northern Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

TIMOTEO L. NAVAJA, CFE, CIE

Subscribed and sworn to before me on this _____ day of _____, 2000.

Notary Public in and for the State
of Washington, residing at Seattle.
My commission expires